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THE GEOGRAPHICAL BASIS OF DOMESTIC EXCHANGE RELATIONS¹

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THE course of domestic exchange in the United States of America is governed by three conditions: first, the fact that the original settlements were on the eastern coast and that they were peopled from the European countries; second, the fact that Europe, with its many nations so closely allied to us in manners and customs, lies to the east across the Atlantic Ocean, and the Orient with its strange peoples, modes and habits lies to the west across the Pacific Ocean; and third, the topography and geographical position of the United States itself. These three conditions all work together to make New York city the natural and economic reserve center of the country. The eastern coast, having been settled first, and having resources capable of meeting all the needs of man, is to-day the wealthiest and most thickly populated section of the country. It consequently supplies capital, necessities and luxuries to the later developed and developing West and South. Standing between the West and South and the countries of Europe, where our greatest trade naturally lies because of common manners and customs, the East has become at once the gateway and reservoir of our commerce. Its greatest city has grown about its greatest harbor, and because this harbor is situated at the most convenient point for reaching both West and South, that city has become one of the great clearing places of the world. Our trade with the Orient has been secondary, and probably will be for generations, first, because our western coast was settled last, and second, because our people and those of Asia and Australasia can only exchange unusual commodities instead of

¹ Read at the meeting of the Academy of Political Science, October 15, 1913.

staples, on account of the wide differences in dress and modes of life. Even the Far West therefore continues to draw upon the East for its every-day requirements and through the East from Europe, and so New York city is the focus of the principal lines of trade to and from all points in the United States and all points in Europe. Our great internal trade has developed largely to take care of our foreign trade, and consequently the centers of our internal trade all have direct communication with New York city. Thus we see a closer relationship between the cities of Texas and New York city than between those cities and St. Louis, between the cities of the Pacific coast and New York city, than between such cities and Chicago, and so on throughout the country. Expressed in terms of domestic exchange, this means that it might be easier for one in Nashville to pay a bill in Louisville in New York exchange, which could be purchased in Nashville and would be acceptable in Louisville, than to do so in Louisville exchange.

The United States is divided into many zones of clearly marked special productions or activities, such as the cotton, wheat, corn, fruit, lumber, coal, iron and various manufacturing territories. To be sure, some wheat and corn are grown in the cotton country, and mining districts are covered with small farms and diversified industries here and there, but in the main where one product is the staple that part of the country producing it must import the other necessities of life in exchange for its specialty. It is only by such division of labor that it is possible to feed and clothe our vast population. Every commercial, producing and manufacturing district, therefore, becomes of the utmost importance to every other, and for its own and the public good each should be contented to take the part for which it is best fitted, and should not cast envious eyes upon the success or business of its neighbors. New York city, because of its position, gathers together wealth from many regions where it is not needed, and distributes it to other regions where it is needed. Every city and town does this also to a certain extent, but New York is the center that is to other cities and towns as they

are to their own communities. The result is that New York exchange is the universal domestic exchange, if it may be so called. The flowing into and out of New York city of the money and credits of the country constitutes our principal exchange movement, and this is the reason that the greatest market for stocks and bonds in the United States is in New York city.

It is just as important for the farmer that he have railroads upon which to move his grain as it is for him to be able to raise a larger amount of grain than he needs for his own use. It is also just as important for the farmer to have industrial concerns financed that can develop and improve harvesting machinery as it is to be able to borrow money that will enable him to grow a larger crop than he could otherwise do. The market afforded by the stock exchange is consequently of as great value to him as the money market outside of it. If funds were not to be had for the purpose of making a market for the industries upon which he must needs depend in order to increase, harvest and transport his crop, his opportunity for profit would be greatly curtailed, and he might be obliged to return to diversified farming, which alone would make it possible for him to have his family live off that which his own farm supplied, as was true in the days of the pioneer. In such case the city would cease to exist; for starvation would spread its population over the length and breadth of the country. This is, of course, the impossible extreme, for the tendency would be stopped after it had gone far enough to cause sufficient suffering to bring about a reaction. There is just as much reason for legislation to compel the cotton farmer to grow only sufficient cotton for his own needs and to divide up the rest of his land into wheat, corn and vegetables, until he can supply only himself and his family, and the grower of wheat to reduce his wheat area and re-plant similarly, as there is to endeavor to split up into small units the money and credits of the country.

For these reasons and many others, it is necessary for the prosperity of the people of our country that no funds be withdrawn from New York city which natural trade conditions

require there. It is true, however, that such funds as may have gone to New York, because our currency system could not contract when business demanded, can be taken away from that city with benefit to all concerned. A proper currency system, which would take up the slack in times of easy money, would undoubtedly of itself solve this problem, and no artificial means would be required. The regional banks should, therefore, act as reserve agents for only a part of the reserve required of member banks, and the money that bankers must of necessity maintain in New York, in order to meet their business requirements, should be counted as reserve. Legislation should leave as much freedom as possible for business to be consummated naturally; otherwise unnecessary friction and expense will occur.

Reasons similar to those which make New York city a receiver and distributor of credit apply to Chicago, St. Louis, and many of the present reserve cities—that is, their geographical position gives them a business that if left to be carried on along the lines of least resistance makes their exchange valuable to certain communities.

The regional banks would not be able to transfer funds from one part of the country to another with the same facility as a central bank. If a central bank had branches in New York and Chicago, for example, money could be paid into the Chicago branch and paid out of the New York branch until the supply in the New York branch was at the lowest point that the business of that branch would allow. This might make it possible for the central bank to take care of all such transfers without the shipment of currency until the tide turned and money was deposited in New York to be paid out in Chicago. The natural seasonal requirements of this country are very marked, and cover several different periods with much regularity. If a central bank were able to count, as reserve, money held in both its New York and Chicago branches, its strength would never be affected by such transfers. In the case of distinct regional banks, however, this would not be true, and it will probably be necessary for such institutions, if organized, to ship currency bank and forth say

between the New York and the Chicago federal reserve bank much more often than would be true in the case of a central bank.

While legislation may be able temporarily to force domestic exchange to run counter to its natural course, yet it would entail unnecessary expense, and there is no doubt whatever that such legislation would ultimately have to be repealed. It would seem wise, therefore, to recognize immediately rather than after expensive experiment the part that each portion of this country plays in its growth and prosperity, and not delude ourselves with the belief that any one industry can prosper by itself or that we can with impunity destroy the natural power of any community without injuring all the rest. Every part of our country depends to a certain extent upon the success of every other part, and if we would continue our development with the greatest benefit to all, we must work together without jealousy or animosity, let each community do that which it is best fitted to do, and allow our operations in domestic exchange to follow the lines of natural trade.

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